



United States  
Department of  
Agriculture

Farmers  
Home  
Administration

Washington  
D.C.  
20250

FmHA AN No. 1425 (1980)

June 5, 1986

SUBJECT: Relationship Between Insured  
and Guaranteed Farmer Program Loans

TO: All State Directors, and State Director-at-Large, FmHA

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to eliminate confusion in making guaranteed OL loans/lines of credit and guaranteed FO loans to farmers who are indebted for an FmHA insured loan.

COMPARISON WITH PREVIOUS AN:

This AN updates and replaces AN No. 1188 (1980) which was issued January 30, 1985, and expired on December 31, 1985.

IMPLEMENTATION RESPONSIBILITIES:

FmHA Instruction 1941-A, "Operating Loan Policies, Procedures and Authorizations," and 1943-A, "Farm Ownership Loan Policies, Procedures and Authorizations," prohibit making an insured farm ownership (FO) or farm operating (OL) loan to a borrower indebted for a guaranteed loan for the same type. However, FmHA Instruction 1980-B does not preclude FmHA from approving guaranteed FO and/or guaranteed OL loans/lines of credit to farmers who are indebted for an insured FO and/or OL loan.

When a guaranteed loan/line of credit is made to a borrower who is indebted for an insured loan, there may be problems in meeting the security requirements set forth in the applicable FmHA regulations. FmHA Instruction 1980-B, Section 1980.108(a)(1)(iii), requires that in such cases separate collateral must be clearly identified for both the insured and the guaranteed loans. FmHA Instruction 1980-B, Section 1980.175(h) requires that a guaranteed OL loan/line of credit be secured by a first lien on all property acquired, produced, or refinanced with loan funds and by the best lien obtainable on any additional security needed. FmHA Instruction 1941-A, Section 1941.19 contains the same security requirement for insured OL loans. As far as FO loans are concerned, there is no requirement in either FmHA Instruction 1943-A or 1980-B regarding real estate lien position; however, separate identifiable collateral must still be obtained when a guaranteed FO loan is made to a borrower already indebted for an insured FO loan. Different lien positions on the same real estate are not considered separate collateral. Therefore, FmHA insured loan security will not be used--either with or without a subordination--as guaranteed loan security because of this requirement for separate identifiable collateral. CROSS COLLATERALIZATION BETWEEN INSURED AND GUARANTEED LOANS IS PROHIBITED.

EXPIRATION DATE: April 30, 1987

FILING INSTRUCTION: Preceding FmHA  
Instruction 1980-B

1425(1980)

FmHA Instruction 1980-B, Sections 1980.175(c) and 1980.180(d) describe acceptable OL and FO purposes, respectively. Both sections contain essentially the same provision which allows refinancing debt incurred for any authorized loan purpose, including FmHA insured loans. In order to meet the security requirements set forth in the applicable FmHA guaranteed loan regulation, consideration should be given to refinancing the insured loan indebtedness with a guaranteed loan.



VANCE L. CLARK  
Administrator

Sent by electronic mail on 06/06/86 at 12:36 by DASD/IMPS. The State Director should advise other personnel as appropriate.